

# BREAK

Business Resource, Education, and Knowledge

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## Pricing

(Excerpt from *Pricing For Profitability: How To Beat The Competition And Boost Your Bottom Line*):

Pop quiz! Which of the following pricing strategies generate the highest profits?

- (a) Cost-based pricing determined by adding a fixed amount or percentage to your unit cost.
- (b) Demand-oriented pricing pegged to buyers' level of interest.
- (c) Competition-oriented pricing geared to the market.

Answer: (b) and (c). Cost (a) does play a role in pricing, giving you a break-even minimum representing your unit cost plus overhead. But to price for profitability, you need to look at demand and competition -- which tell you how high above the minimum your prices should go to stimulate the sales volumes you want and provide the profit margins you require.

However, cost-based pricing remains today's most popular strategy. And the reasons are obvious. It's simple and direct, and is viewed as equitable to buyers and sellers alike. It also has an honored history, used by regulated utility companies, as well as giants like General Motors, to set prices that deliver a targeted rate of return on costs.

The problem is that this method doesn't provide pricing flexibility. It doesn't allow you to react to changes in demand or competition. It doesn't permit you to establish different profit margins to maximize your returns from different items in your inventory. It doesn't enable you to price aggressively in the face of market conditions to which your competitors must respond. In summary, it doesn't let you adjust prices up and down to protect the profitability and, indeed, the survival of your business.

## Is the price right?

Check your prices regularly to ensure they are optimal.

- Has the competition increased/decreased prices?
- Does your sales volume suggest your prices are too low?

Be sure to reflect vanishing opportunity in your pricing structure.

- Is a new, improved model of your product available?
- Have you offered your best customers, your best deals on pricing first?
- Did you know the work of salaried staff is perishable?

Before implementing a price increase answer the following questions:

- Do I feel comfortable discussing higher prices with my customers?
- How will my customers react to higher prices?
- Do my customers know why they are buying from me, instead of a competitor?
- Can I explain, to my customers, why higher prices are needed?



Webibles

Learn more about "Pricing" using SBA online resources:

### PRICING YOUR PRODUCTS AND SERVICES PROFITABLY FM-13

Discusses how to price your products profitably, plus various pricing techniques and when to use them.

[www.sba.gov/library/pubs.html#fm-13](http://www.sba.gov/library/pubs.html#fm-13)  
/ [Word 97](#) / [Text](#) / [PDF](#) /

### PRICING FOR PROFITABILITY: HOW TO BEAT THE COMPETITION AND BOOST YOUR BOTTOM LINE

<http://www.sba.gov/gopher/Business-Development/Success-Series/Vol10/pricing.txt>

"Webibles" Bonus  
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## BREAKFAQS with SBA

This section provides answers to commonly asked questions related to pricing.

### Q: When is discounting GOOD for business?

A: Discounting must achieve a business objective to be worthwhile. Some of the more common objectives for discounting are:

- Inventory turnover (cashflow)
- Participating in standard product market discounts (keeping up with the competition)
- To receive prompt payment

### Q: When is discounting BAD for business?

A: Reducing prices just for the sake of being lower than the competition is a bad idea for the following reasons:

- A lower price is normally a custom of large businesses.
- Unless the lower prices continue to cover the cost of doing business, product quality and service may be noticeably different.
- Most people don't buy based on price alone, so focus on increasing profits, not sales.



Questions



Send questions on the upcoming topics to Attn: BREAK

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## SBA Headline News



### **SMALL BUSINESS WEEK 2001 STATE WINNER**

Joseph A. Beckman, Owner  
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Lumber Company  
1900 Hart Street  
Dyer, IN 46311  
219/865-3310  
Fax: 219/865-5600  
Retail lumber

National Small Business Week - May 2002



### **July 26: WASHINGTON - FULL SENATE CONFIRMS HECTOR BARRETO JR. AS NEW ADMINISTRATOR OF SBA**



### **Indiana MEDWeek Awards Presented**

**2001 Minority Small Business  
of the Year...** Larry S. Webb, President,  
Webb Construction, Inc. Gary, Indiana  
... see Connections September 2001 for  
more details ...

<http://www.sba.gov/in/indonews.html>



### **SBA Program not a "drag" for Superstar**

Drag Racing  
superstar Don "The Snake" Prudhomme  
is used to making history. Prudhomme  
set numerous records during his 30  
seasons behind the wheel...continued at  
<http://www.sba.gov/in/indonews.html>



### **SBA Honors Indiana Firm**

An Indiana company has joined sixty-  
seven other small businesses from  
around the country in receiving the U.S.  
Small Business Administration's (SBA)  
prestigious Tibbetts Award for their  
exemplary achievement in the Small  
Business Innovation Research (SBIR)  
program. The award was recently  
presented to Bloomington, Indiana's  
Communication Disorders Technology,  
Inc. (CDT) at a luncheon during the Sixth  
Annual Tibbetts Award in Arlington, VA.  
CDT was the only Indiana company to  
achieve this honor this year...continued  
at <http://www.sba.gov/in/indonews.html>.

## When, What, Where?

Visit the Indiana District Office  
calendar at <http://www.sba.gov/in/>  
for information on upcoming events,  
seminars and workshops.

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**Survival  
Understanding Financial  
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## BREAK with SBA Counseling & Training Resources

### SCORE

A nonprofit association dedicated to  
encouraging the formation, growth, and  
success of small business nationwide through  
counseling and mentor programs.

### Indiana locations:

Indianapolis	(317) 226-7264
Fort Wayne	(260) 422-2601
South Bend	(574) 282-4350
Evansville	(812) 421-5879
Gary	(219) 882-3918
Columbus	(812) 379-4457
Anderson	(317) 642-0264
New Albany	(812) 944-9678
Bloomington	(812) 339-8937
Kokomo	(765) 457-5301
Marion	(317) 664-5107
Elkhart	(574) 293-1531
Logansport	(574) 753-6388

### Small Business Development Centers

The SBA, in conjunction with state  
government and local partners, administers  
the Small Business Development Center  
Program to provide management assistance  
to current and prospective small business  
owners.

### Indiana locations:

Bloomington	(812) 339-8937
Columbus	(812) 372-6480
Muncie	(765) 284-8144
Lafayette	(765) 742-2394
Terre Haute	(812) 237-7676
Kokomo	(765) 457-7922
Fort Wayne	(260) 426-0040
Portage	(219) 762-1696
Richmond	(765) 962-2887
South Bend	(574) 282-4350
New Albany	(812) 945-0266
Madison	(812) 265-3127
Evansville	(812) 425-7232

### Women's Business Center

Each women's business center provides  
assistance and/or training in finance,  
management, marketing, procurement and  
the Internet, as well as, addressing  
specialized topics such as home-based  
businesses, corporate executive downsizing  
and welfare-to-work.

### Indiana location:

Fort Wayne	(260) 424-7977
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